

Message Text

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ACTION EB-08

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R 211511Z JAN 77

FM AMEMBASSY RABAT

TO SECSTATE WASHDC 818

C O N F I D E N T I A L SECTION 1 OF 2 RABAT 416

E.O. 11652: GDS

TAGS: OGEN EMIN EFIN MO

SUBJECT: ASSESSMENT OF GOM FINANCING ASSUMPTIONS AND
BORROWING NEEDS

REF: RABAT A-02

1. FOLLOWING CLASSIFIED ANALYSIS WRITTEN TO STAND ON ITS OWN, BUT CAN MOST USEFULLY BE READ IN CONJUNCTION WITH UNCLASSIFIED REPAIR. BEGIN SUMMARY. COMPARED TO EXCEEDINGLY TIGHT FINANCIAL PICTURE AT BEGINNING OF 1976, OUTLOOK FOR 1977 APPEARS SOMEWHAT EASED, THOUGH SEVERAL CRITICAL ASSUMPTIONS REMAIN IN QUESTION AND 1978 PICTURE IS CLOUDED BY MOUNTING DEBT REPAYMENTS AND CONSIDERABLY REDUCED BORROWING MARGIN. POSSIBLE SOCIAL UNREST STEMMING FROM UNPRECEDENTED INFLATION REMAINS MAJOR IMPONDERABLE FOR 1977. MOST OTHER SIGNS ARE QUOTE GO UNQUOTE HOWEVER AND WITH LUCK ON POLITICAL SIDE, MOROCCO MAY ATTAIN GOAL OF SELF-SUSTAINED GROWTH WITHIN DECADE. END SUMMARY.

2. LENGTHY DISCUSSION WITH CENTRAL BANK ECONOMIC STUDIES DIRECTOR BENNANI PROVIDED ECONOFFS OPPORTUNITY TO CHECK ASSUMPTIONS USED IN CENTRAL GOVERNMENT BUDGET
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ANALYSIS (RABAT A-02) AND DRAFT TRENDS REPORT. ELEMENTS OF BUDGET ANALYSIS (RABAT A-02) AND TABLES FOR TRENDS REPORT WERE CONFIRMED. BENNANI SAID THAT MAIN PRE-OCCUPATION, AS AT THIS TIME LAST YEAR, IS AVAILABILITY OF EXTERNAL FINANCE TO SUPPORT \$1.5 BILLION DEVELOPMENT NEEDS AS ELABORATED IN BUDGET (CF \$1.2B IN 1976).

3. THE SAHARA AND EXTERNAL BORROWING NEEDS. BASED ON BENNANI'S STATEMENTS AND OTHER CONTACTS, GOM APPEARS MORECONFIDENT THAN LAST YEAR THAT SAHARA WILL NOT EXERCISE SIGNIFICANT NEGATIVE EFFECT ON EURO-MART WILLINGNESS TO LEND. EMBASSY HAS ALSO NOTED MORE RELAXED ATTITUDE ON PART OF RECENT US BANK VISITORS AND ATTRIBUTES THIS TO GOM SUCCESS IN COVERING LAST YEAR'S FOREIGN EXCHANGE NEEDS AND MOROCCO'S EVIDENT MASTERY OVER SAHARA. BIG UNCERTAINTY IS HOW MUCH OF DH 1155 MILLION (\$256 MILLION) EARMARKED FOR "UNFORESEEN AND UNDECIDED EXPENSES"--ESSENTIALLY A DEFENSE CONTINGENCY ITEM--MUST BE RAISED IN FOREIGN CURRENCY DURING YEAR. WE UNDERSTAND HOWEVER, THAT AT HIGHEST LEVEL GOM EXPECTS SAUDIS TO AGAIN UNDERWRITE EXTRAORDINARY DEFENSE COSTS, ALLEVIATING MAJOR CONCERNS ON THIS ACCOUNT.

4. PHOSPHATE PRICE-PRODUCTION ASSUMPTIONS. ENTERING 1977, PHOSPATE MONOPOLY (OCP) OFFICIALS ARE RETICENT ABOUT DISCUSSING ASSUMPTIONS OR STRATEGY. CENTRAL BANK STUDIES DIRECTOR BENNANI HAS, HOWEVER, SHARED WITH US OCP REVENUE TARGET OF \$630 MILLION AS USED FOR INTERNAL GOM PLANNING. THIS FIGURE SAID TO REPRESENT VARIABLE COMBINATION OF PRICE/PRODUCTION POSSIBILITIES. GIVEN PAST OCP TENDENCY TO OPT FOR HIGHER PRICE, WE BELIEVE MARKET TESTING WILL OCCUR. IF DAKAR CARTEL ARRANGEMENTS SUPPORT TARGET RISE OF 5 PER CENT IN PRICES, TOP QUALITY MOROCCAN ROCK COULD REACH \$38 RANGE, IMPLYING SHIPMENTS OF 16M MT. OCP STRATEGY ALSO CALLS FOR RECOVERING SHARE OF MARKET LOST DURING LAST TWO YEARS, HOWEVER; AND IF CONFIDENTIAL

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CARTEL STRATEGY PROVES DEFECTIVE AND PRICES ARE RESISTANT, BELIEVE OCP PREPARED TO ADOPT LOWER PRICE IN RETURN FOR TRADE OFF ON TONNAGE. AT PRESENT PRICES, BENNANI BELIEVES 18M MT IS ACHIEVABLE.

5. EXTERNAL BORROWING NEEDS

A. IBRD WILL AGAIN BE SIGNIFICANT SOURCE OF FUNDS. ANNOUNCEMENT JUST MADE OF \$30 MILLION CREDIT FOR AGRICULTURAL DEVELOPMENT LOAN. IT TOO EARLY TO HAZARD FINAL ESTIMATE BUT 1977 IBRD FINANCING LIKELY TO BE IN RANGE OF....\$170 MILLION.

B. FRANCE WILL BE MAJOR SOURCE OF BALANCE OF PAYMENTS FINANCE AND SUPPLIER CREDITS, PROBABLY AGAIN IN RANGE OF....\$80 MILLION.

C. OTHER TRADITIONAL AID DONORS (INCLUDING USAID OF APPROVED \$20 MILLION PLUS POSSIBLE PL 480 TITLE I IN AMOUNT OF \$7-8 MILLION) COULD REACH....\$50 MILLION.

D. ARAB STATE LENDING IS AMONG MORE PROBLEMATIC ESTIMATES, BUT BASED ON LAST YEAR'S EXPERIENCE

AND RECENT INDICATION THAT SAUDI ARABIA WILL
TAKE CARE OF MILITARY DEFICIT, WE PROJECT ARAB STATE
FUNDS OF\$300 MILLION.

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C O N F I D E N T I A L SECTION 2 OF 2 RABAT 416

E. JAPAN. WHILE NOTE STRICTLY SPEAKING A FINANCING ITEM,
IT HAS BEEN AUTHORITATIVELY LEARNED THAT JAPAN WILL BE
PUTTING \$350 MILLION REPORTEDLY IN EQUITY CAPITAL INTO THE NADOR
(SONASID) STEEL MILL. THIS OBVIOUSLY INTENDED TO ASSURE
JAPANESE EQUIPMENT SUPPLIES INSIDE TRACK ON THIS \$1 BILLION
PROJECT, AND AS SUCH THIS IS BAD NEWS FOR OTHER BIDDERS
INCLUDING SEVERAL US FIRMS. WAS UNDOUBTEDLY WELCOME
NEWS FOR FINANCE MINISTRY, HOWEVER, WHICH WOULD OTHERWISHE
BE CHARGED WITH HELPING SONASID LOCATE THESE FUNDS. FOR
ALL INTENTS, THIS CAN BE CONSIDERED A MAJOR FINANCING
TARGET ACHIEVED. IT SHOULD EASE MOROCCO'S EFFORTS IN
WORLD CAPITAL MARKETS BY....PERHAPS \$100 MILLION.

F. ADJUSTMENT FOR PROBABLE OVERSTATEMENT OF ABSORPTIVE
CAPACITY. GOM OFFICIALS ACKNOWLEDGE THAT INVESTMENT
BUDGET IS DELIBERATELY OVER-AMBITIOUS--IN PART TO IMPRESS
PROSPECTIVE LEADERS, INCLUDING ARAB BROTHERS, AND IN
PART TO BE SURE BORROWING AUTHORITY EXISTS TO COVER
CONTINGENCIES (SEE PARA 3 ABOVE). BASED ON RECENT
SHORTFALLS IN REACHING INVESTMENT TARGETS AND RELATIVELY
LOW LEVEL OF SAHARA MILITARY ENGAGEMENT, THIS COULD
REFLECT REDUCTION IN FINANCING NEED OF\$200 MILLION.

G. CENTRAL GOVERNMENT AND PUBLIC AGENCY BORROWING.
LEAVING ASIDE JAPANESE INVESTMENT IN SONASID, WHICH WAS
UNDOUBTEDLY TAKEN INTO ACCOUNT IN DRAWING UP BUDGET,
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ABOVE SOURCES OF FINANCE LEAVE IMPLICIT \$700 MILLION TO BE RAISED OF OVERALL \$1.5 B EXTERNAL BORROWING NEEDS. BANK OFFICIALS HAVE INFORMED US THAT NATIONAL DEVELOPMENT BANK (BNDE) IS ABOUT TO GO MARKET WITH \$50 MILLION ON-YEAR BRIDGE LOAN. MAJOR US BANK ASSISTED OCP IN PLACING \$200 MILLION LOAN WITHIN PAST TWO WEEKS. ANOTHER US BANK IS NEGOTIATING \$200 MILLION BANKERS ACCEPTANCE SCHEME TO FINANCE OIL IMPORTS ON A QUARTERLY ROLL OVER BASIS, TO REMAIN VALID FOR 18 MONTHS. THIS LEAVES \$250 MILLION TO BE LOCATED. AT LEAST ONE MAJOR US BANK IS OF THE VIEW THAT IN ADDITION TO ABOVE AMOUNTS, CENTRAL GOVERNMENT COULD READILY RAISE UP TO \$200 MILLION IN COMMERCIAL CREDITS FROM INTERNATIONAL BANKS DURING 1977 (BUT NOT MUCH MORE THAN ANOTHER \$150 MILLION EVEN ON STEEPLY IMPROVED INTEREST/ MATURITY TERMS). FINANCIAL OUTLOOK IS THUS FOR ANOTHER YEAR OF SOLID GROWTH BASED ON BORROWED FUNDS, THOUGH ANY ONE OF SEVERAL CONTINGENCIES DISCUSSED IN PARA 7 BELOW COULD ALTER THIS OUTLOOK.

6. INTERNAL FINANCE. FOLLOWING LAST YEAR'S GREEN MARCH LOAN, LITTLE INTERNAL BORROWING LEEWAY REMAINS. 1977 BORROWING FROM DOMESTIC BANKING SYSTEM IS THUS PROJECTED AT ONLY DH 3

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MILLION, UP 3 PER CENT FROM 1976 (COMPARED TO 31 PER CENT RISE 1976/1975). AS ALTERNATIVE, DECISION HAS BEEN TAKEN TO CUT SUBSIDIES LINE ITEMS BY 50.2 PERCENT. THIS PROBABLY UNAVOIDABLE TACTICE IS IN ABSTRACT TERMS A WELCOME STEP TOWARDS RESTORING ALLOCATIVE EFFICIENCY OF MARKET AFTER YEARS OF SEVERE DISTORTIONS IMPOSED BY SUBSIDIES PROGRAMS. COMING ON TOP OF THREE YEARS OF HIGH AND UNACCUSTOMED INFLATION, HOWEVER, IT WILL IMPOSE HEAVY BURDENS ON POPULATION, MUCH OF WHICH UNCOMFORTABLY CLOSE TO SUBSISTENCE. OUTCRY HAS BEEN SHARP AS STAPLES HAVE RISEN 20-40 PERCENT OVER PERIOD OF FEW WEEKS. PALACE HAS UNDERTAKEN MAJOR PROGRAMS TO SHIFT BLAME BY SERIES OF CABINET MEETINGS, PUBLIC PROMISES TO CONTROL

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FURTHER RISES, AND FRONT PAGE NOTICES OF WIDESPREAD ARRESTS OF HOARDERS AND PRICE GOUGERS.

7. IMPONDERABLES. IF PHOSPHATE ESTIMATES PROVE FAULTY (AS THEY HAVE IN MAJOR DEGREE FOR TWO CONSECUTIVE YEARS), IF CROP SITUATION EVOLVES LESS SATISFACTORILY THAN PROJECTED, IF MILITARY SITUATION DETERIORATES NECESSITATING LARGE OUTLAYS OF CONTINGENCY FUNDS, IF JAPANESE PLEDGE

TO INVEST IN SONASID FALLS THROUGH, IF TRICKY OIL IMPORT SCHEME BASED ON BANKER'S ACCEPTANCES PROVES UNWORKABLE, OR IF ANY MAJOR SOURCE OF BILATERAL FINANCE PROVES LESS RELIABLE THAN ESTIMATED, BORROWING MARGIN AS CALCULATED ABOVE WILL BE CRITICAL. CONCERN REMAINS HIGH IN CENTRAL BANK CIRCLES, MOREOVER, FOR 1978 DURING WHICH ACCESS TO FURTHER INTERNATIONAL COMMERCIAL BANK BORROWING WILL BE INCREASINGLY PROBLEMATIC AND REPAYMENTS OF RECENTLY ACCUMULATED DEBT WILL MOUNT STEEPLY. SO FAR, HOWEVER, MOROCCO'S DEBT STRATEGY SEEMS TO BE PAYING OFF, WITH A REMARKABLE 10 PER CENT REAL GROWTH IN 1976 GDP HAVING BEEN ACHIEVED IN SPITE OF HEAVY CEREALS IMPORTS, THE PHOSPHATE BUST, AND THE HESITANT WORLD ECONOMIC RECOVERY. BIGGEST CURRENT NEGATIVES ARE: CONCERN THAT SOCIAL UNREST ARISING FROM UNPRECEDENTED INFLATION COMBINED WITH SUBSIDY CUTS MAY RESULT IN WIDESPREAD PRODUCTION LOSSES DUE TO STRIKES; AND RESIDUAL CONCERNS THAT SAHARA SITUATION MIGHT YET FLARE UP. EITHER EVENT WOULD NOT ONLY UNDERCUT NICELY CALCULATED BORROWING NEEDS, BUT IMPAIR WILLINGNESS OF BANKS TO UNDERWRITE LOANS. VIRTUALLY ALL SIGNS ARE THAT THE BET IS BEING WON, HOWEVER, AND WITH A LITTLE LUCK IN SUPPORT OF ITS PROGRAM OF CALCULATED BOLDNESS, MOROCCO MAY ATTAIN ITS OBJECTIVE OF SELF-SUSTAINED GROWTH WITHIN DECADE.

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